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What's Been Happening

1 — The EU's Derisking Dilemma — 1

[In One Sentence]

- The European Commission's Executive Vice-President Valdis Dombrovskis said that “the EU has no intention of decoupling with China” but “also needs to protect itself” to ensure open and fair global trade.
- During a visit to China, Dombrovskis said that the EU will be more “assertive” in “de-risking” efforts to ensure “economic resilience” and to create a “level playing field” in trade and economic engagements.
- Meanwhile, the EU agreed to resume regular exchanges with China to discuss macroeconomic issues, continue discussions on a possible transparency mechanism on critical raw materials supply chains, and establish working groups on specific sectoral issues.
- U.S. President Joe Biden will host European Commission President Ursula von der Leyen and European Council President Charles Michel at the White House for the second U.S.-EU Summit on October 20, 2023.
- Former Trade and Technology Council (TTC) working group co-chair Gerard de Graaf has recommended U.S. and EU leaders to discuss past lessons and effective mechanisms to ensure the TTC's “continuity” given upcoming elections on both sides.
- De Graaf also underlined the importance of better associating the stakeholder community to the TTC and ensuring that the TTC is not exclusively a channel confined to the inter-governmental level.

[Mark the Essentials]

- In a speech at China's Tsinghua University ahead of his meeting with Chinese Vice Premier He Lifeng, European Commission Executive Vice-President Valdis Dombrovskis expressed concerns about the “lack of reciprocity” in EU-China economic ties, pointing to the EU's growing trade deficit with China as well as more difficult business and investment environment in China. Dombrovskis said EU companies are struggling to comply with China's new foreign relations law and the updated anti-espionage law and added that EU firms hope to be part of China's “success story.”
- When asked about the European Union's investigation into subsidy practices of the electric vehicle industry in China, Dombrovskis confirmed that non-Chinese carmakers that have operations in China—such as BMW and Tesla—are also subject to scrutiny. Dombrovskis said he tried to reassure Chinese authorities that the investigation has a well-established, fact-based process in compliance with “WTO principles,” but Chinese

officials have voiced concerns about the investigation's short consultation period and inadequate due process with private firms.

[Keeping an Eye On...]

- Following on to Commission President Ursula von der Leyen's September 13 announcement during her State of the European Union (SOTEU) speech, the European Commission formally launched an anti-subsidy investigation at its own initiative on October 4 into the imports of battery electric vehicles (BEV) from China. The probe is expected to deliver two key findings. First, that BEV value chains in China benefit from illegal subsidization, particularly in the form of state-subsidized financing; provision of preferential export insurance; tax reductions, rebates and exemptions; and government provision of goods (such as raw and input materials as well as components) and services for less than adequate remuneration. Second, that the subsidized imports are causing or threatening to cause economic injury to European BEV producers. A provisional countervailing duty (CVD), over and above the EU's 10% tariff on cars, will almost certainly be imposed sometime during the summer of 2024. The more interesting development will be what follows thereafter. In high likelihood, the European Commission will sit down with a group of Chinese BEV exporters and ancillary companies and hash out a (progressively declining) minimum import price and annual import volume undertaking, plus a provisional duty levied on imports above the annual level, to remove the injurious effects of subsidization. Non-cooperating BEV exporters will be slapped with much higher definitive (final) duties later in 2024. The green transition, including in the auto sector, is too important to Europe's interests for it to slouch towards the labyrinth of protectionism. The presence of Chinese BEV's in the market does not constitute a national security risk. On the other hand, the surge of low-priced imports gaining significant market share leading to losses within Europe's auto industry is untenable, especially at a time when sustained domestic investments are required to transition the sector towards full electrification. The European Commission's goal, therefore, will be to reach an amicable solution with China's government first, and thereafter with its auto exporters, to halt the price depression and stabilize prices—given that stabilized prices are important not only for current production but for future investment decisions as well. This will inevitably lead to a slow-down in Chinese car exports to the bloc and incentivize a shift of a certain amount of production to within the bloc—much like Japanese auto manufacturers began doing forty years ago. When the Commission's Executive Vice President and China's Commerce Minister co-chair their 11th High-level Economic and Trade Dialogue next year, they should prepare the stage for initiating this joint undertaking between the Commission and China's BEV exporters. Overall, the anti-subsidy probe is to be welcomed for facilitating, in effect, a tighter trade and investment relationship in the battery electric vehicle sector between Europe and China.

[Expanded Reading]

- [Statement from Press Secretary Karine Jean-Pierre on U.S. – EU Summit](#), The White House, September 28, 2023
- [EV makers such as Tesla could fall under Europe's subsidy probe into China, EU's trade chief says](#), CNBC, September 28, 2023
- [EU, China rein in trade angst, set agenda for further dialogue](#), Reuters, September 25, 2023
- [EU calls for greater market access and fair competition at EU-China High-Level Dialogue](#), European Commission, September 25, 2023
- [Statement by Executive Vice-President Dombrovskis at the press conference following the 10th EU China High-Level Economic and Trade Dialogue](#), European Commission, September 25, 2023

- [EU commissioner calls for more balanced trade with China and warns that Ukraine could divide them](#), *Associated Press*, September 25, 2023
- [China's 'unfairness' warrants a more assertive EU approach, warns trade chief Valdis Dombrovskis](#), *South China Morning Post*, September 25, 2023 [Paywall]
- [EU does not want to decouple from China but must protect itself, says EU trade chief](#), *Reuters*, September 23, 2023

2 — The U.S. and China in a ‘New Era’ of Globalization — 2

[In One Sentence]

- At the United Nations General Assembly, U.S. President Joe Biden said that the U.S. will continue to lead World Trade Organization (WTO) reform and “make global institutions more responsive, more effective, and more inclusive.”
- U.S. Trade Representative Katherine Tai later said the U.S. is “thinking creatively” beyond a traditional negotiation mindset with regard to WTO reform discussions and proposes “alternatives to litigation” like “good offices, conciliation, and mediation.”
- China’s State Council released a White Paper that calls for “a new type of economic globalization” where countries “explicitly oppose” “protectionism” and “unilateral sanctions” and work together to engage in mutually beneficial cooperation.
- The White Paper also notes a “widening gap between developed and developing countries, and that within developed countries” and argues it is a result of the current “zero-sum game,” “winner-takes-all” mindset.
- China previously said that it would appeal the WTO panel report that rejected China’s retaliatory measures against the U.S. Section 232 tariffs on steel and aluminum, advancing the issue to the now-paralyzed Appellate Body.
- Citing the significance of emerging and foundational technologies such as generative AI, U.S. Secretary of State Antony Blinken said the U.S. seeks to “advance our vision for the technological future” and to “shape the rules of the road” through “tech diplomacy.”

[Mark the Essentials]

- According to USTR Tai, the U.S. is “asking” WTO members to engage in “interest-based” conversations and discussions as opposed to traditional “position-based or end-result-based” negotiations. Tai said that the latter process is “positional”, “uncreative” and “constipated” whereas the former is “inclusive” and would reflect interests of all members of the WTO, including the U.S. and its “developing-country partners.”
- Three WTO committees have adopted proposals to improve the “functioning” of its bodies through procedural reforms such as implementing e-Agendas, providing streamlined agendas and providing convening notices further in advance of scheduled meetings.
- According to survey results from the American Chamber of Commerce in Shanghai, American companies in Shanghai have worse business results and a historically low outlook for the China market amidst the U.S.-China bilateral economic tensions and macroeconomic pressures. Although companies say they are delaying or canceling investment decisions in China, only fewer than 6% plan to reshore back to the U.S.
- Former officials and researchers have warned that the current expansion and escalation of export controls between U.S. and China could fuel nationalism and a “me-first” mindset, thereby suppressing multilateralism and threatening the global trade order. Researchers also cautioned that if U.S. companies such as in the
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semiconductor industry are prohibited from selling to China, it could lead to reduced sales, smaller margins, less hiring and less spending on research and development.

- Defending the U.S. proposal for a transatlantic arrangement for global sustainable steel and aluminum, USTR Tai said that the proposal should be compatible with WTO rules but admitted that the arrangement may face challenges at the WTO in the same vein as the EU's carbon border adjustment mechanism.

[Keeping an Eye On...]

- USTR Katherine Tai's approach to reform of the WTO's dispute settlement system appears to be going the same way as her approach to the review and modification of the U.S.' Section 301 tariffs—i.e., lots of seemingly earnest talk of seeking consensual pathways forward backed however by zero intention to actually deliver a workable solution. Fifteen months after the Section 301 tariff review was initiated, the process continues to meander along, with little expected by way of material modification to the tariffs once the review is completed. More to the point, the review was necessitated for statutory reasons and hence had to be conducted. Left to her own devices, the tariffs would not even have been reviewed (although she would never have conceded that), given that the tariffs have become a hot potato within the body politic. In much the same way, USTR Tai's serious-minded talk of creative ways forward on reform of the WTO, including of its dispute settlement system, is pure hot air. There is little-to-no intention of restoring the functioning of the WTO's Appellate Body, and the only reason that she indulged in her seemingly earnest talk is because the vast membership of the WTO would like the matter to be actively dealt with at the forthcoming 13th Ministerial Conference (MC13) in Abu Dhabi in February 2024. Absent this driver, she would not even be mentioning dispute settlement system reform. And why would she? Almost every major U.S. external-facing trade and investment measure in recent times, from the Section 232 and Section 301 tariffs to the Inflation Reduction Act's tax credit provisions to the proposed Global Arrangement for Sustainable Steel and Aluminum, falls afoul of WTO law. If disregarding multilateral trade law is the price to be paid to decouple from China, politely referred to as building supply chain resilience, then so be it. For those inclined to push for forward progress at MC13 in Abu Dhabi, they would be better off turning their attention to the issues of food security, ecommerce/digital trade, and the outstanding matters related to fisheries subsidy disciplines that were unresolved at MC12 (S&DT flexibilities for least developed countries; exceptions for certain subsidies).

[Expanded Reading]

- [Why the Developing World and All of Us Need Trade and the WTO](#), event at the Center for Strategic & International Studies, September 22, 2023
- [Transatlantic Forum on GeoEconomics](#), event at the Atlantic Council, September 22, 2023
- [Full Text: A Global Community of Shared Future: China's Proposals and Actions](#), State Council Information Office of the People's Republic of China, September 2023
- [Remarks by President Biden Before the 78th Session of the United Nations General Assembly | New York, NY](#), The White House, September 19, 2023
- [The costs of export restrictions to the global economy](#), Hinrich Foundation, September 19, 2023
- [U.S. trade and investment restrictions: laudable but costly goals](#), Yeutter Institute International Trade Policy Review, September 19, 2023
- [AmCham Shanghai Releases Report on Business Climate in China](#), AmCham Shanghai, September 18, 2023

[Legislative Developments]

- Democratic lawmakers in both chambers introduced a bill to impose taxes on virgin plastics to reduce plastic waste worldwide.
- House Appropriations Committee member Adriano Espaillat announced support for the Americas Act, giving the bill support in both the House and Senate and across both parties. The Act would strengthen U.S. trade partnerships in the Western Hemisphere to reshore and nearshore manufacturing and tighten the U.S.' *de minimis* rule against imports from China.
- The U.S. Department of Commerce published a final rule to interpret the CHIPS and Science Act's China 'guardrail' rules which more or less hews to the proposed rule issued earlier this March, but expands the rule's application narrowly in certain areas of chip production while at the same time allowing subsidy recipients to share technology with Chinese nationals working in their establishments in the U.S. and allied countries.

[Hearings and Statements]

- Leaders of a number of House committees have urged the Bureau of Industry and Security to revoke and remove all license exceptions for exports to Huawei and Semiconductor Manufacturing International Corp (SMIC). The lawmakers argue that Huawei's development of a 5G smartphone containing 7-nm chips "suggest a blatant violation of U.S. export control regulations."
- At a subcommittee hearing of the House Energy and Commerce Committee, lawmakers disagreed over the institutional and structural approach to make the Commerce Department more involved in strengthening supply chain transparency and resilience.
- House Ways & Means Committee's trade subcommittee Chair Adrian Smith said that committee members are "anxious" to move forward with the reauthorization of the Generalized System of Preferences (GSP).
- At a hearing of the Senate Agriculture Committee, lawmakers advocated for introducing restrictions on Chinese and other foreign ownership of U.S. agricultural land.

[Expanded Reading]

- [Foreign Ownership in U.S. Agriculture](#), hearing in front of the U.S. Senate Committee on Agriculture, Nutrition, & Forestry, September 27, 2023
- [Preventing the Improper Use of CHIPS Act Funding](#), Federal Register, September 25, 2023
- [Cassidy, Bennet, Salazar Announce Espaillat as New Co-Lead for Landmark Americas Act](#), Office of Senator Bill Cassidy, September 21, 2023
- [Innovation, Data, and Commerce Committee Hearing: "Mapping America's Supply Chains: Solutions to Unleash Innovation, Boost Economic Resilience, and Beat China."](#) hearing in front of the U.S. House Energy & Commerce Committee, September 20, 2023
- [Trade Subcommittee Hearing on Reforming the Generalized System of Preferences to Safeguard U.S. Supply Chains and Combat China](#), hearing in front of the U.S. House Ways & Means Committee, September 20, 2023
- [REDUCE Act would levy a fee on production of virgin plastics to incentivize reuse and recycling](#), Office of Rep. Lloyd Doggett, September 19, 2023
- [McCaul Leads House Chairs Urging Action Against Huawei and SMIC](#), House Foreign Affairs Committee, September 14, 2023
- [Cassidy, Salazar Release Draft Legislation to Counter China, Build Stronger Western Hemisphere](#), Office of Senator Bill Cassidy, January 11, 2023